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Latin American Arms Supply Market: Changing Patterns of Supply

An Intelligence Assessment

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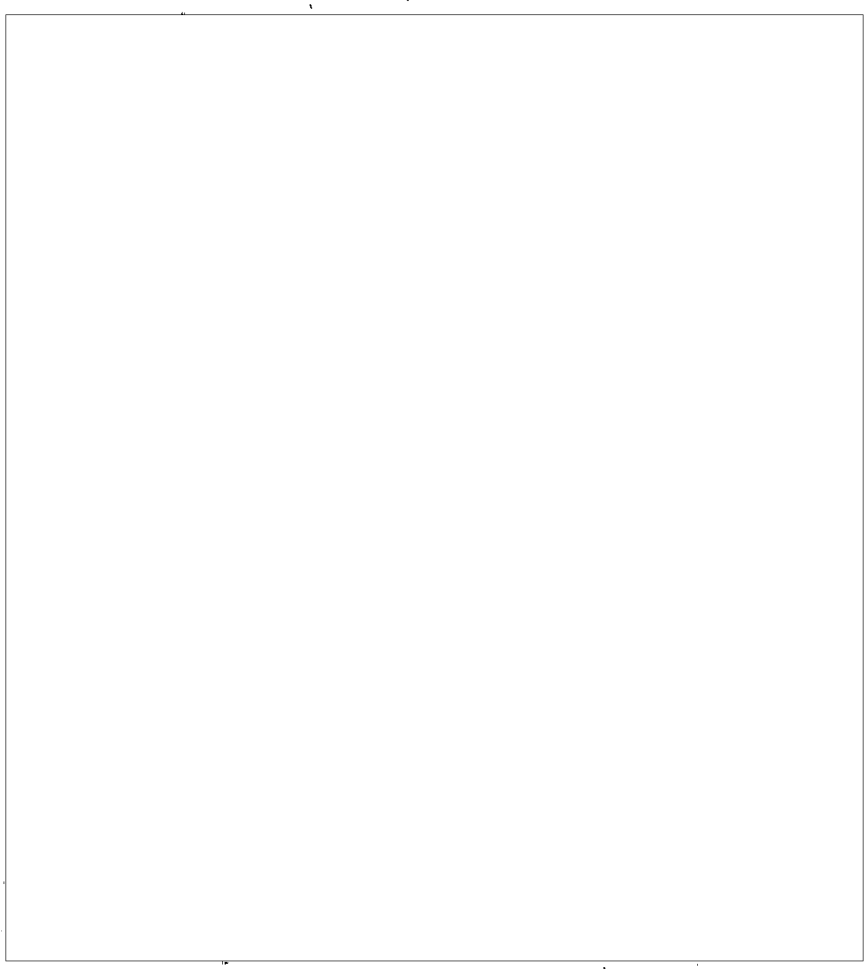

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Central Intelligence Agency
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Key Judgments

Latin American countries, closely tied to the United States after World War II for military security assistance, began shifting arms procurement to Western Europe in the late 1960s to refurbish their outdated arsenals and to adjust to a more restrictive US sales policy.

Latin America, one of the last of the Third World regions to acquire modern weaponry, procured $4 billion worth of arms in 1974-77. West European suppliers garnered $2.3 billion of this total, or about three times the US figure. While the United States remained the single largest supplier, its sales slumped badly toward the end of the period. The USSR signed major contracts with one client—Peru.

In the past four years, Argentina, Ecuador, and Peru together placed nearly two-thirds of the equipment orders and Venezuela, Brazil, and Chile another 30 percent.

We expect a substantial drop in sales in 1978-79, as Latin American countries absorb deliveries of their recent large purchases and ponder the requirements of their upcoming new equipment cycles.

Military sales to Latin America in 1980-83 could reach $3 billion to $4 billion (in 1976 prices), with West European suppliers increasing their share

Latin America: Arms Suppliers [1]

Million US $

	United States	Western Europe	Other Non-Communist	USSR	Total
1974	240	265	55	5	565
1975	205	700	145	55	1,105
1976	145	315	35	340	835
1977	130	1,035	140	110	1,415
1st half, 1978	NA	55	30	0	NA

[1] For more detailed tables, see the appendix.

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of the market even further. We expect market developments in this four-year period to follow this general pattern:

- US sales will be largely made up of spare parts and electronics equipment.
- France will have excellent prospects for sales of jet aircraft and air defense systems.
- West Germany should be able to market missiles, ground force equipment, and submarines.
- Italy should be building new surface combatants for several Latin American states.
- British sales will tend to lag behind the sales of other West European producers.
- Israel can be expected to replace the United States in a growing number of technical assistance programs in the region, including the training of local personnel and sales of certain types of advanced military equipment.
- Brazil and Argentina, which are the first arms producers of any consequence to emerge in the region, should more than double their combined $105 million sales of 1974-77.
- The USSR will continue to play a restricted role in the market.

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Latin American Arms Market: Changing Patterns of Supply

The Latin American Market

Latin America[1] ranks as one of the lesser arms markets. Protected from extraregional threats under the security blanket of the United States, Latin America's $4 billion worth of weapons purchased in 1974-77 pale in comparison with the nearly $90 billion of total Third World arms orders.

Even though purchases are small relative to the global total, orders have swelled in absolute terms in recent years, spurred by the rise of military dictatorships whose security depended on the support of their military establishments. Other countries have been seeking arms to (a) replace obsolete equipment, (b) ensure preparedness against internal tensions and perceived external threats, and (c) enhance their prestige in the international community through acquisition of sophisticated hardware.

Arms for Latin states have usually trailed by a generation the weaponry introduced into the Middle East and South Asia. In many cases, the bulk of military inventories have consisted of helicopters, transport aircraft, motor vehicles, and communication equipment.

US Dominance, Gained and Lost

The United States became Latin America's major arms supplier during World War II and retained its dominant position for two decades thereafter. In general, the United States furnished a wide range of surplus, low-level modern weaponry under the early postwar accords to help maintain a regional arms balance and channel Latin American military interests into internal security. Easy terms, relatively low cost, and almost immediate delivery attracted the Latin American buyers. After two decades as practically the sole arms supplier for Latin America, the United States adopted restrictive sales policies that began to reduce the US role. After the first restrictions were imposed in 1967, other Western suppliers gradually stepped in to fill the vacuum. US sales were further eroded by the shift from grant aid (Military Assistance Program—MAP) to the Foreign Military Sales (FMS) program. From the heyday of the late 1950s and early 1960s when it controlled at least three-fourths of the market, the United States has slipped; in 1974-77, West European sales outran US sales by about 3 to 1 even though the US sales of $720 million outstripped sales of any other single supplier except West Germany. Within the four-year period, US sales were stronger at the beginning than at the end. The French outsold the United States in both 1976 and 1977 and the West Germans had a 5 to 1 edge in 1977.

Beginning in 1974, US sales have been concentrated in nonlethal weapons, such as jet trainer aircraft, helicopters, and support and communications equipment. Arms restraint policy announced by Washington in May 1977 will have little effect on sales to Latin America, because Latin America has already turned to non-US arms suppliers. The guidelines on human rights announced shortly thereafter could reduce US sales further by their exclusion of six Latin American countries (Argentina, Brazil, Chile, El Salvador, Guatemala, and Uruguay) from military sales on credit. These policies will encourage the further development of Argentine and Brazilian arms industries.

Peru, Brazil, Argentina, Venezuela, Ecuador, and Chile together purchased about 90 percent of the arms going to Latin America in 1967-73. Their share subsequently has increased to 91

[1] For purposes of this paper, Latin America excludes Cuba.

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percent as shown in the accompanying tabulation.

	Percent of Total Purchases 1974-77
Peru	39
Argentina	17
Ecuador	17
Venezuela	14
Brazil	8
Chile	6
Other	9

Western Europe Assumes Major Supply Role

Since 1970, West European countries have supplied about 60 percent of all military equipment going to Latin America—50 percent of the aircraft, 75 percent of the naval craft, and a large share of the ground forces equipment.

France made the first major inroad into the US market in Latin America in 1969 and 1970 with sales of Mirage jet fighters to Argentina, Brazil, and Venezuela. Orders by Argentina, Brazil, Ecuador, and Venezuela in 1977 put French sales over the $300 million mark. The sale of 18 F-1 fighter aircraft to Ecuador alone amounted to $280 million. The planes were bought after Washington would not allow Israel to sell less expensive Kfir jet fighters, which contain components licensed by the United States. The French have centered their sales campaign on Mirage aircraft and ground forces equipment and have sold these items to almost every major Latin arms importer. France's first major naval contract in Latin America was initialed late in 1976 with a $180 million sale of six guided-missile boats to Peru.

West Germany sold $660 million worth of arms to Latin America in 1977, establishing its position as a major supplier for the first time. Bonn has promoted the sale of submarines and surface warships from the very beginning. Early in the 1970s it had sold patrol craft to Argentina and minesweepers to Brazil and export model Type 209 submarines to five Latin states. In a contract, second only to the nearly $435 million 1975 Venezuelan order for frigates from Italy, Argentina agreed to pay $430 million for six West German submarines last December. Three to five of these craft will be assembled in Argentina. Bonn had previously permitted local assembly of its Cobra antitank missile in Brazil and Chile and had contributed to the development of Argentina's new production line for armored vehicles (including a 30-ton tank, an armored personnel carrier, and a 155-millimeter towed howitzer, all based on the West German Marder chassis). The easy credit terms and lower prices of West German equipment have made it appealing to several Latin American governments. Bonn also sold the Roland surface-to-air missile to Brazil, although it has denied the equipment to Middle Eastern countries.

Italy, like West Germany, has sold mostly naval craft to Latin America. Its first important deal was a $190 million sale in 1973 of four Lupo-class frigates to Peru. The Venezuelan order in 1975 for six Alpino-class frigates was the largest sale ever to a Latin American country and was followed in 1977 by a $14 million sale of six antisubmarine warfare helicopters for deployment on the vessels. Italy also has signed licensing agreements with Peru for assembling two Lupo-class frigates and with Brazil for producing the MB-326G jet trainer. In January 1978 Italy agreed to set up a factory in Brazil to produce Italian artillery.

Before 1974 the **United Kingdom** had sold almost $1 billion worth of arms to Latin America. Since then British sales have tapered off in part because of political differences over the Belize issue, the Chilean human rights problem, and Argentine claims to the Falkland Island territories. In 1976, Argentina canceled a $379 million order for six frigates—the largest British arms contract in Latin America. Stiff competition from France, West Germany, and Italy have made inroads into British sales. The United Kingdom has followed the practice of other West European countries in using resident military attaches to market arms in Latin America but, unlike the other West Europeans, the British do not offer local assembly or production rights.

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More than 30 other non-Communist foreign countries sell small arms, motor vehicles, ammunition, and logistics equipment to Latin America. The **Netherlands, Switzerland, Spain**, and **Belgium**, for example, have made sales of aircraft, artillery, and vintage naval combatants. **Israel** sold about $120 million worth of ground and air equipment in 1975 and 1976. It sold small patrol craft to Nicaragua, air-to-air missiles to El Salvador, and jet aircraft to Honduras in 1977. **South Africa** is the newest country to solicit arms orders in the region, with Paraguayan contracts for military-related equipment already inked. Johannesburg also may soon sign agreements with Chile and El Salvador.

Within Latin America, **Brazil** and **Argentina** have themselves become arms suppliers to the region, signing a combined total of $105 million in new accords in 1974-77 (see the accompanying tabulation).

Million US $

Purchaser	Brazil	Argentina
Bolivia	17	0
Chile	45	1
Ecuador	31	0
Honduras	0	2
Nicaragua	0	1
Paraguay	2	1
Uruguay	5	0

Other Latin American nations look increasingly to Brazil and Argentina for armored vehicles, small arms, rockets, and small aircraft. Early in 1978, Brazil announced plans to cooperate with Western Europe in establishing facilities in Brazil for the manufacture of a wide variety of weapons, using West European technology. Brazil has signed four such agreements with individual West European countries for licensing rights and assistance in the construction of new military production and assembly plants.

The importance of Argentina's arms industry also is rising; we expect Argentina to become a strong competitor of Brazil. Before 1977, most of Buenos Aires' sales were for motor vehicles and small arms (90 percent for Peru). In addition, Argentina apparently sold its Pucara counterinsurgency aircraft to Nicaragua and Bolivia—sales that could top $70 million.

The **USSR's** arms sales to Latin America have been essentially confined to Peru. Sales amounted to $500 million in 1974-77, with deliveries through June 1978 including:

- 300 T-55 tanks.
- 36 SU-22 fighter-bombers.
- SA-3 and SA-7 surface-to-air missiles.
- 6 MI-6 helicopters.
- 36 MI-8 helicopters.
- 16 AN-26 transports.
- 44 ZSU-23/4 antiaircraft guns.

Even though Soviet sales were limited to Peru, the USSR's share of the Latin American market during 1974-77 was 70 percent that of the US share. Soviet sales to Peru in 1974-77 were about 5 percent of Moscow's total arms sales to LDCs in this period. Despite numerous Soviet proffers to other Latin American countries, only one contract outside Peru has been signed—a 1977 half million dollar jeep contract with Colombia. We know of no major arms agreement between an East European and a Latin American country.

Short-Term Prospects for the Latin American Market

Unless tensions mount in the Andean region or in Central America over Belize, we expect a lull in Latin American arms procurement in 1978-79. New orders will be limited mostly to logistical and support equipment and small arms and ammunition in the next few years. We also expect Latin American countries to make a more pronounced effort to adopt new licensing arrangements through which their own arms industries can take up more of the supply task. Annual arms sales to the region in 1978-79 could drop as much as 50 percent below the 1974-77 average.

Latin American countries will be absorbing deliveries on the $4 billion in orders placed in 1974-77, some 75 percent of which still await

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shipment. A few countries also will be constrained by the already large debt obligations they have incurred. Where modernization does take place, it will continue to focus on internal and intraregional threats.

New acquisitions in the short term will also include precision guided munitions, antisubmarine warfare helicopters, and guided-missile patrol boats because they are relatively low cost, highly effective, prestigious weapons.

In the first six months of 1978, arms sales to Latin America fell to less than $100 million and possibly will total a half billion dollars for the year as a whole. The US Government plans to finance about $46 million in military credit sales to Latin America in fiscal year 1979 (starting 1 September 1978), down from the $73 million of 1978. Commercial US contracts may take up some of the slack with sales of aircraft, artillery, and support equipment, predominantly to Ecuador and Venezuela.

We expect France, West Germany, and Italy to continue as major suppliers in 1978-79. Brazil, bolstered by a relatively strong financial position and stable government, will probably lead the buyers' list. At the same time, it will expand domestic arms production capacity to include jet trainer aircraft, surface-to-air missile systems, advanced tanks, and sophisticated precision-guided munitions, all based on West European designs. Peru is expected to cut back its large purchases until it brings its financial affairs under control.

Latin American Demand, 1980 Onwards

In the early 1980s we expect another upsurge in orders as many Latin American countries (particularly Mexico, Ecuador, Venezuela, and Chile) move into a new supply cycle. They almost certainly will want to replace their aging fighter aircraft inventories with supersonic jet fighters and modernize their tanks, other armored vehicles, and air defense systems. The reequipment cycle could mean expenditures of $3 billion to $4 billion (in 1976 dollars) over the four-year period beginning in 1980, roughly equal to orders in 1974-77.

The United States probably will sell mostly spare parts and electronics equipment. West European suppliers will play a more aggressive part, profiting especially from the reequipment cycle in aircraft, patrol craft, and guided munitions. We also expect Brazil and Argentina to more than double their arms exports (especially small arms, ammunition, armored vehicles, light aircraft, and support equipment) to other Latin American countries.

France almost certainly will continue to offer ground force equipment, Exocet antiship missiles, Mirage jet aircraft, and the popular Aerospatiale helicopters. This equipment, as well as French-made air defense equipment such as the Crotale surface-to-air missile systems, will find a receptive market in Latin America. France will also try to sell local production packages and may sweeten these contracts with "sell-back" clauses and expanded exporting rights.

West German contracts will probably include licensed production in Brazil of the Leopard tank and, with French concurrence, manufacturing rights for the HOT and Milan antitank missiles in South American countries. The largest agreements will probably be for broad-based technical assistance and electronic packages for developing local military-related production facilities. Bonn's sales of the new submarines to Argentina in late 1977 could ultimately generate further orders for the new German craft.

Mexico, Ecuador, and possibly Colombia will be looking for larger class, modern guided-missile ships and may purchase Italian designs for local assembly. Italy is much less competitive in sales of jet aircraft and armored vehicles although it might sell some Augusta helicopters and ground force equipment. Italy is also expected to sign additional licensed assembly and production agreements for artillery and aircraft, particularly with Brazil.

We do not at the moment envisage a resurgence of the British as major suppliers; the United Kingdom might attract customers for its Jaguar ground-attack aircraft if the Ecuadorean Air Force continues its acclaim for the plane. The United Kingdom also would be a logical

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choice for replacing outmoded tanks (particularly with the Chieftain), armored vehicles, communications gear, and electronic countermeasures equipment. The British Rapier surface-to-air missile system also has a good chance of finding Latin buyers.

Of the smaller arms suppliers to Latin America, Israel almost certainly will replace the United States in some technical assistance programs and will be called upon to supply certain types of modern weapons now obtained from the United States. Brazil and Argentina should more than double their combined armed exports in 1980-83, with sales featuring small arms and ammunition, armored vehicles, light aircraft, and support equipment. The USSR, in the absence of the development of another big customer, will continue to find slender pickings in Latin America.

The author of this paper is [redacted] *Office of Economic Research. Comments and queries are welcome and should be directed to Mr.* [redacted]

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APPENDIX

STATISTICAL TABLES

Table A-1

Latin America: Arms Agreements

Million US $

	1974-77	1974	1975	1976	1977
Total	**3,920**	**565**	**1,105**	**835**	**1,415**
Non-Communist	3,410	560	1,050	495	1,305
United States[1]	720	240	205	145	130
Western Europe	2,315	265	700	315	1,035
France	710	80	125	185	320
West Germany	780	70	5	45	660
Italy	580	35	520	10	15
United Kingdom	120	50	30	25	15
Other	125	30	20	50	25
Other non-Communist	375	55	145	35	140
USSR	510	5	55	340	110

[1] If Soviet agreements were expressed in terms of US costs of production and if the coverage were expanded to include a full range of support and services included in US military exports, the value of Soviet agreements would be raised by about one-third for 1974-77.

Table A-2

Latin America: Arms Agreements, by Major Recipient

Million US $

	1974-77	1974	1975	1976	1977
Total	**3,920**	**565**	**1,105**	**835**	**1,415**
Peru	1,125	85	100	615	325
Argentina	680	55	20	45	560
Ecuador	650	160	165	20	305
Venezuela	555	30	480	15	30
Brazil	315	80	150	55	30
Chile	250	100	105	40	5
Bolivia	105	20	10	5	70
Honduras	35	Negl	30	Negl	5
Guatemala	25	5	10	5	5
Uruguay	25	5	15	5	Negl
Colombia	20	5	5	5	5
Nicaragua	15	Negl	Negl	Negl	15
Mexico	10	Negl	Negl	5	5
El Salvador	5	Negl	5	Negl	Negl
Other	105	20	10	20	55

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